

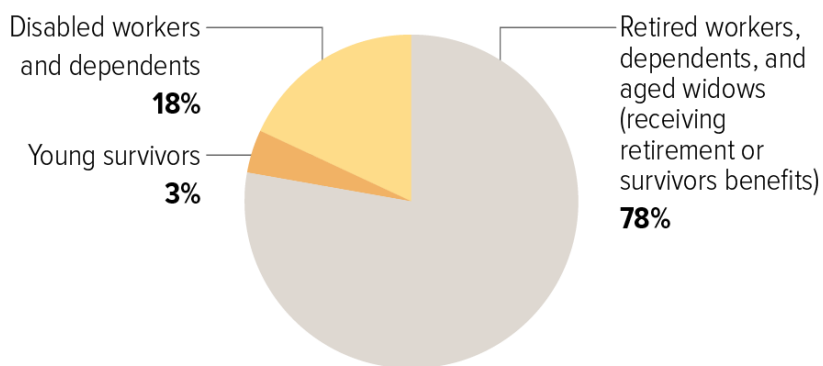
“Eighty years after President Franklin Roosevelt signed the Social Security Act . . . Social Security remains one of the nation’s most successful, effective, and popular programs.”

Updated August 13, 2015

Eighty years after President Franklin Roosevelt signed the Social Security Act on August 14, 1935, Social Security remains one of the nation’s most successful, effective, and popular programs. It provides a foundation of income on which workers can build to plan for their retirement. It also provides valuable social insurance protection to workers who become disabled and to families whose breadwinner dies.

Fact #1: Social Security is more than just a retirement program. It provides important life insurance and disability insurance protection as well.

One-Fifth of Social Security Beneficiaries Receive Disability or Young Survivors Benefits



Note: Figures may not add due to rounding.

Source: Social Security Administration, June 2015 data

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Some 60 million people, or more than one in every six U.S. residents, collected Social Security benefits in June 2015. While three-quarters of them received benefits as retirees or elderly widow(er)s, 11 million (18 percent) received disability insurance benefits, and 2 million (3 percent) received benefits as young survivors of deceased workers.

Workers earn life insurance and disability insurance protection by making Social Security payroll tax contributions:

- About 96 percent of people aged 20-49 who worked in jobs covered by Social Security in 2014 have earned life insurance protection through Social Security.¹
- For a young worker with average earnings, a spouse, and two children, that Social Security protection is equivalent to a life insurance policy with a face value of \$612,000.²

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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POLICY BASICS | Top Ten Facts About Social Security

- About 90 percent of people aged 21-64 who worked in covered employment in 2014 are insured through Social Security in case of disability.³

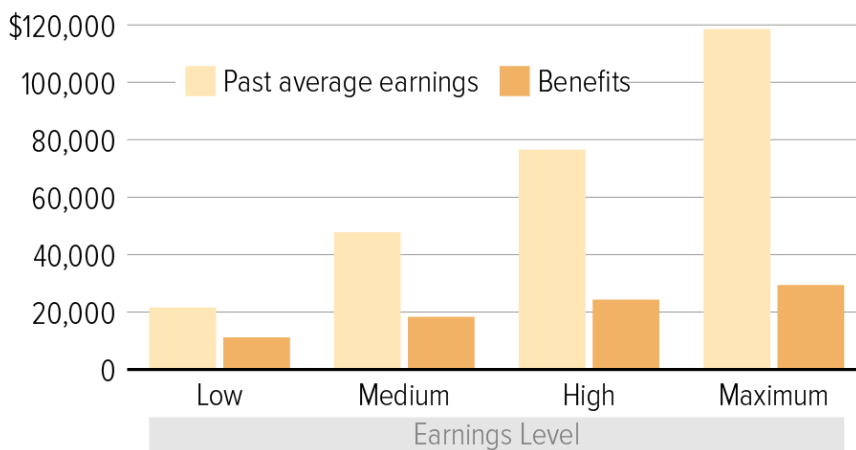
The risk of disability or premature death is greater than many people realize. Of recent entrants to the labor force, about one-third (36 percent of men and 31 percent of women) will become disabled or die before reaching the full retirement age.⁴

Fact #2: Social Security provides a guaranteed, progressive benefit that keeps up with increases in the cost of living.

Social Security benefits are based on the earnings on which you pay Social Security payroll taxes. The higher your earnings (up to a maximum taxable amount, currently \$118,500), the higher your benefit.

Social Security Benefits Are Progressive

Annual benefits and earnings for worker retiring at age 65 in 2015



Source: Social Security Administration, 2015 Trustees Report

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Social Security benefits are progressive: they represent a higher proportion of a worker's previous earnings for workers at lower earnings levels. For example, benefits for someone who earned about 45 percent of the average wage and then retired at age 65 in 2015 replace about 52 percent of his or her prior earnings. But benefits for a person who always earned the maximum taxable amount replace only about 25 percent of his or her prior earnings, though they are larger in dollar terms than those for the lower-wage worker.⁵

In recent years, fewer employers have offered defined-benefit pension plans, which guarantee a certain benefit level upon retirement, and more have offered defined-contribution plans, which pay a benefit based on a worker's contributions and the rate of return they earn.⁶ Thus, for most workers, Social Security will be their only source of guaranteed retirement income that is not subject to investment risk or financial market fluctuations.

“Social Security benefits are progressive: they represent a higher proportion of a worker's previous earnings for workers at lower earnings levels.”

“[U]niversal participation and the absence of means-testing make Social Security very efficient to administer.”

Once someone starts receiving Social Security, his or her benefits automatically increase to keep pace with inflation, helping to ensure that people do not fall into poverty as they age. In contrast, most private pensions and annuities are not adjusted (or are only partly adjusted) for inflation.

Fact #3: Social Security provides a foundation of retirement protection for nearly every American, and its benefits are not means-tested.

Almost all workers participate in Social Security by making payroll tax contributions, and almost all elderly people receive Social Security benefits. In fact, 97 percent of people aged 60-89 either receive Social Security or will receive it.⁷ The near-universality of Social Security brings many important advantages.

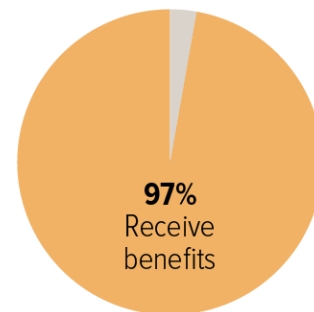
Social Security provides a foundation of retirement protection for people at all earnings levels. It encourages private pensions and personal saving because it isn't means-tested — in other words, it doesn't reduce or deny benefits to people whose current income or assets exceed a certain level.⁸ Social Security provides a higher annual payout than private retirement annuities per dollar contributed because its risk pool is not limited to those who expect to live a long time, no funds leak out in lump-sum payments or bequests, and its administrative costs are much lower.⁹

Indeed, universal participation and the absence of means-testing make Social Security very efficient to administer. Administrative costs amount to only 0.7 percent of annual benefits, far below the percentages for private retirement annuities.¹⁰ Proposals to means-test Social Security would impose significant reporting and processing burdens on both recipients and administrators, undercutting many of those important advantages.¹¹

Finally, the universal nature of Social Security assures its continued popular and political support. Large majorities of Americans say that they don't mind paying for Social Security because they value it for themselves, their families, and millions of others who rely on it.¹²

Social Security Covers Nearly All Americans

Percent of population aged 60-89 who receive or will receive Social Security benefits



Source: Social Security Administration, 2015 estimate

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Fact #4: Social Security benefits are modest.

Social Security benefits are much more modest than many people realize; the average Social Security retirement benefit in June 2015 was \$1,335 a month, or a bit over \$16,000 a year.¹³ (The average disabled worker and aged widow received slightly less.) For someone who worked all of his or her adult life at average earnings and retires at age 65 in 2015, Social Security benefits replace about 40 percent of past earnings.¹⁴ This “replacement rate” will slip to about 36 percent for a medium earner retiring at 65 in the future, chiefly because the full retirement age, which has already risen to 66, will climb to 67 over the 2017-2022 period.

Moreover, most retirees enroll in Medicare’s Supplementary Medical Insurance (also known as Medicare Part B) and have Part B premiums deducted from their Social Security checks. As health care costs continue to outpace general inflation, those premiums will take a bigger bite out of their checks.¹⁵

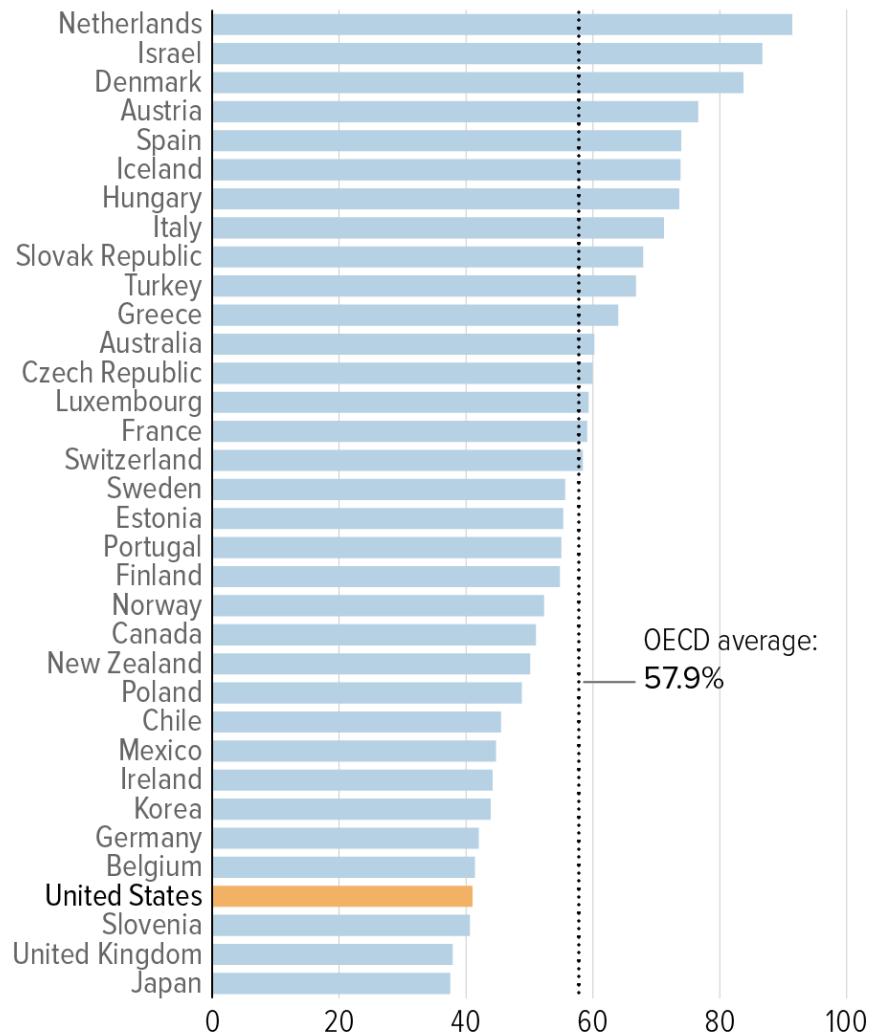
Social Security benefits are modest by international standards, too. The United States ranks 31st among 34 developed countries in the percentage of a median worker’s earnings that the public-pension system replaces.¹⁶

“Social Security benefits are much more modest than many people realize; the average Social Security retirement benefit in June 2015 was \$1,335 a month, or a bit over \$16,000 a year.”

“The United States ranks 31st among 34 developed countries in the percentage of a median worker’s earnings that the public-pension system replaces.”

Social Security Benefits Are Low Compared With Other Advanced Countries

Social Security benefits for median worker as percentage of earnings



Source: Organisation for Economic Co-operation and Development, *Pensions at a Glance 2013: Retirement Income Systems in OECD Countries*.

Data depict the public-pension benefit (in the U.S. context, Social Security) payable to a median earner in each country.

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Fact #5: Children have an important stake in Social Security.

Social Security is important for children and their families as well as for the elderly.

About 6 million children under age 18 (8 percent of all U.S. children) lived in families that received income from Social Security in 2013. That number included over 3.1 million children who received their own benefits as dependents of retired, disabled, or deceased workers, as

well as others who lived with parents or relatives who received Social Security benefits.

Social Security lifted 1.2 million children out of poverty in 2013.¹⁷

Social Security's Effect on Poverty, 2013

Age group	Percent in poverty		Number lifted out of poverty by Social Security
	Excluding Social Security	Including Social Security	
Children Under 18	21.5	19.9	1,174,000
Adults Aged 18-64	16.8	13.6	6,226,000
Elderly Age 65 and Over	42.6	9.5	14,711,000
Total, All Ages	21.5	14.5	22,110,000
Addendum:			
Women Age 65 and Over	46.7	11.6	8,679,000

Source: Center on Budget and Policy Priorities based on data from the U.S. Census Bureau, Current Population Survey, March 2014.

Fact #6: Close to half of the elderly would be poor without Social Security. Social Security lifts nearly 15 million elderly Americans out of poverty.

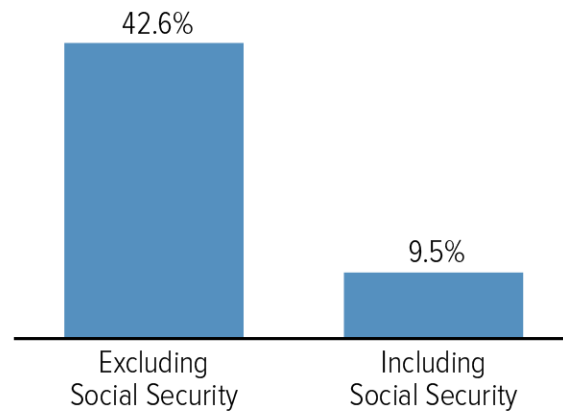
Without Social Security benefits, more than 40 percent of Americans aged 65 and older would have incomes below the poverty line, all else being equal. With Social Security benefits, less than 10 percent do. The program lifts 14.7 million elderly Americans out of poverty.

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Social Security Dramatically Cuts Poverty Among Seniors

Percentage of seniors in poverty, 2013



Source: CBPP based on data for 2013 from the U.S. Census Bureau's Current Population Survey, March 2014.

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Fact #7: Most elderly beneficiaries rely on Social Security for the majority of their income.

For 65 percent of elderly beneficiaries, Social Security provides the majority of their cash income. For 36 percent of them, it provides 90 percent or more of their income. For 24 percent of them, it is the sole source of retirement income.¹⁸

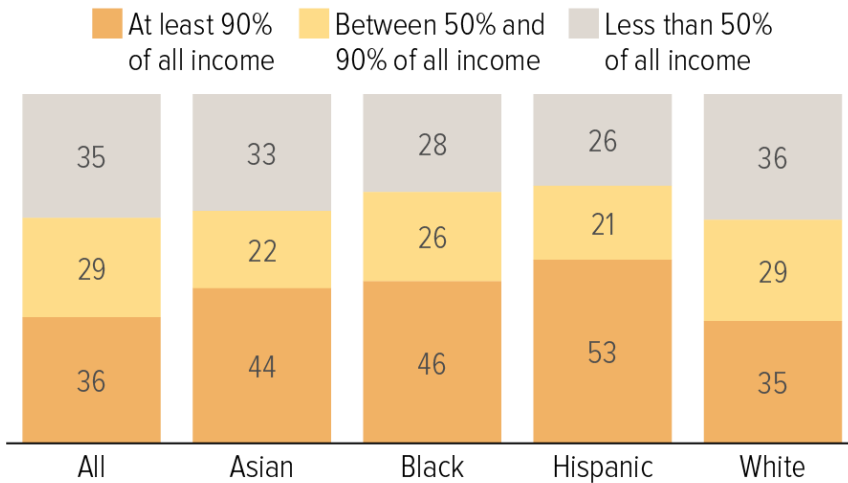
Reliance on Social Security increases with age, as older people are less likely to work and more likely to have depleted their savings. Among those aged 80 or older, Social Security provides the majority of income for 76 percent of beneficiaries and nearly all of the income for 47 percent of beneficiaries.¹⁹

Fact #8: Social Security is particularly important for minorities.

Social Security is a particularly important source of income for groups with low earnings and less opportunity to save and earn pensions, including African Americans and Hispanics. Among beneficiaries aged 65 and older, Social Security represents 90 percent or more of income for 44 percent of Asian Americans, 46 percent of African Americans, and 53 percent of Hispanics, compared with 35 percent of whites.²⁰

Social Security Represents Larger Share of Income for Minorities

Percent of elderly beneficiaries who depend on Social Security



Note: Figures may not add due to rounding.
Source: Social Security Administration, 2012 data

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“African American and Hispanic workers benefit substantially from Social Security because they have higher disability rates and lower lifetime earnings than whites, on average.”

African American and Hispanic workers benefit substantially from Social Security because they have higher disability rates and lower lifetime earnings than whites, on average. Hispanic workers also have longer average life expectancies than whites, which means they have more years to collect retirement benefits.²¹

Fact #9: Social Security is especially beneficial for women.

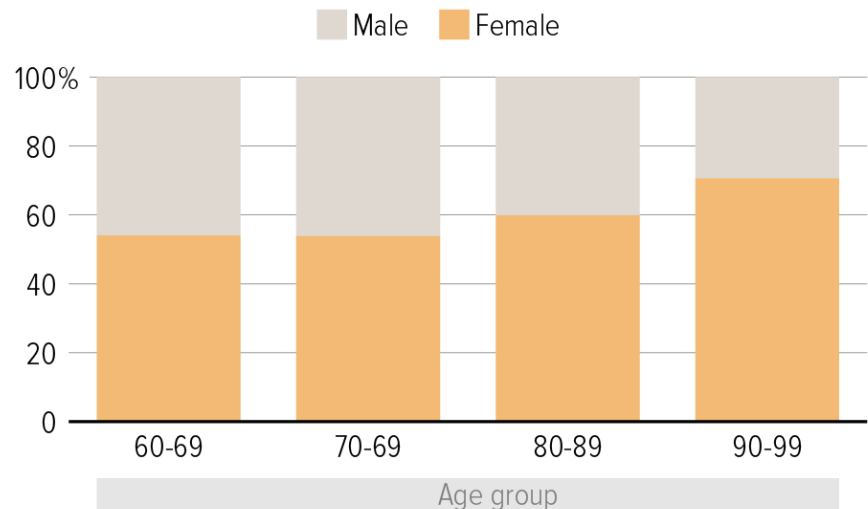
Because women tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions, Social Security is especially important for them.²² Women constitute 56 percent of Social Security beneficiaries aged 62 and older and 66 percent of beneficiaries aged 85 and older.²³ In addition, women make up 97 percent of Social Security survivor beneficiaries.²⁴

Women benefit disproportionately from the program’s inflation-protected benefits (because they tend to live longer than men), its progressive formula for computing benefits (because they tend to have lower earnings), and its benefits for spouses and survivors.

“Because women tend to earn less than men, take more time out of the paid workforce, live longer, accumulate less savings, and receive smaller pensions, Social Security is especially important for them.”

Social Security Is Especially Beneficial for Women

Percent of male and female Social Security beneficiaries, by age



Source: Social Security Administration, Annual Statistical Supplement 2015. Data are for December 2014.

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Fact #10: Relatively modest changes would place Social Security on a sound financial footing for 75 years and beyond.

Since the mid-1980s, Social Security has collected more in taxes and other income each year than it pays out in benefits and has amassed combined trust funds of \$2.8 trillion, invested in interest-bearing Treasury securities.²⁵ But Social Security’s costs will grow in coming years as the large baby boom generation (those born between 1946 and 1964) moves into its retirement years.

By modestly shifting revenues between the program’s Disability Insurance (DI) and Old-Age and Survivors Insurance (OASI) trust funds, policymakers can enable Social Security to pay full benefits until 2034, the new trustees’ report shows. Reallocation is a traditional and noncontroversial step that would free policymakers to focus on strengthening overall Social Security solvency for the long term.²⁶ (Viewed separately, the DI trust fund faces exhaustion in 2016, and the much larger OASI fund in 2035.)

After 2034, even if policymakers took no further action, Social Security could still pay three-fourths of scheduled benefits, relying on Social Security taxes as they are collected.²⁷ Alarmists who claim that Social Security won’t be around when today’s young workers retire either misunderstand or misrepresent the projections.

The long-term gap between Social Security’s projected income and promised benefits is estimated at just under 1 percent of gross domestic product (GDP) over the next 75 years (and 1.6 percent of GDP

in the 75th year). A mix of tax increases and modest benefit reductions — carefully crafted to shield the neediest recipients and give ample notice to all participants — could put the program on a sound financial footing indefinitely.³¹

By enacting these changes, policymakers could reassure future generations that they, too, will be able to count on this successful program.

“A mix of tax increases and modest benefit reductions — carefully crafted to shield the neediest recipients and give ample notice to all participants — could put [Social Security] on a sound financial footing indefinitely.”

POLICY BASICS | Top Ten Facts About Social Security

- ¹ SSA, "Social Security Program Fact Sheet," <http://www.ssa.gov/OACT/FACTS/>. Most employment is covered by Social Security, but a few types of work are excluded by law or covered only under certain conditions.
- ² SSA, "The Present Value of Expected Lifetime Benefits for a Hypothetical Worker Dying or Becoming Disabled at Age 30," Memorandum from Michael Clingman, Actuary, to Alice H. Wade, Deputy Chief Actuary, November 5, 2014.
- ³ SSA, "Social Security Program Fact Sheet."
- ⁴ Johanna Maleh, Robert Baldwin, and Jason Schultz, *A Disability and Death Table for Insured Workers Born in 1994*, Social Security Administration, July 2015, Actuarial Note No. 2014.6, <http://www.socialsecurity.gov/OACT/NOTES/ran6/an2014-6.pdf>.
- ⁵ *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, Table V.C7, <http://www.ssa.gov/oact/tr/2015/index.html>.
- ⁶ Kathy Ruffing and Paul N. Van de Water, *Social Security Benefits Are Modest*, Center on Budget and Policy Priorities, May 5, 2015, <http://www.cbpp.org/research/social-security/social-security-benefits-are-modest>.
- ⁷ SSA, "Never Beneficiaries, Aged 60–89, 2015," <http://www.ssa.gov/retirementpolicy/fact-sheets/never-beneficiaries.html>.
- ⁸ However, people with earnings above a specified amount — currently \$15,720 a year for people under age 66 in 2015 and \$41,880 for people who reach 66 in 2015 but who haven't yet marked their birthday — may not receive any retirement benefits until reaching full retirement age. That boosts the benefit they will eventually receive at full retirement age (currently 66, when that earnings test no longer applies) or even age 70 (when they can maximize their credit for delayed retirement). See box, "Why Does Raising the Retirement Age Reduce Benefits?" in Ruffing and Van de Water, *Social Security Benefits Are Modest*. Like income from private pensions and savings, a portion of Social Security benefits is also subject to income taxation for higher-income beneficiaries.
- ⁹ Virginia Reno *et al.*, *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy*, Washington: National Academy of Social Insurance, 2005, http://www.nasi.org/sites/default/files/research/Uncharted_Waters_Report.pdf.
- ¹⁰ SSA, "Administrative Expenses," <http://www.ssa.gov/oact/STATS/admin.html>.
- ¹¹ American Academy of Actuaries, *Issue Brief: Means-Testing for Social Security*, January 2004, http://www.actuary.org/pdf/socialsecurity/means_0104.pdf; Kathy Ruffing, "Means-Testing No Answer for Social Security," Center on Budget and Policy Priorities, March 10, 2011, <http://www.cbpp.org/blog/means-testing-no-answer-for-social-security>.
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- ¹³ SSA, "Benefits Paid by Type of Beneficiary," <http://www.ssa.gov/OACT/ProgData/icp.html>.
- ¹⁴ Michael Clingman, Kyle Burkhalter, and Chris Chaplain, *Replacement Rates for Hypothetical Retired Workers*, Social Security Administration, July 2015, Actuarial Note No. 2015.9, <http://www.ssa.gov/OACT/NOTES/ran9/an2015-9.pdf>.
- ¹⁵ Ruffing and Van de Water, *Social Security Benefits Are Modest*.
- ¹⁶ Kathy A. Ruffing, "Social Security Benefits Are Modest by International Standards," Center on Budget and Policy Priorities, December 4, 2013, <http://www.cbpp.org/blog/social-security-benefits-are-modest-by-international-standards>.
- ¹⁷ Center on Budget and Policy Priorities based on data from the U.S. Census Bureau, Current Population Survey, March 2014.
- ¹⁸ SSA, "Income of the Population 55 or Older, 2012," Table 9.A1, http://www.ssa.gov/policy/docs/statcomps/income_pop55/index.html. Data are for aged units, which consist of married couples living together at least one of whom is 65 or older, and unmarried people 65 or older.
- ¹⁹ *Ibid.*, Table 9.A2.
- ²⁰ *Ibid.*, Table 9.A3.

- ²¹ General Accounting Office, *Social Security and Minorities: Earnings, Disability Incidence, and Mortality Are Key Factors That Influence Taxes Paid and Benefits Received*, April 2003, Report GAO-03-387, <http://www.gao.gov/new.items/d03387.pdf>.
- ²² National Academy of Social Insurance, *Social Security: An Essential Asset and Insurance Protection for All*, February 2008, http://www.nasi.org/usr_doc/An_Essential_Asset_and_Insurance_Protection_for_All.pdf.
- ²³ SSA, "Social Security is Important to Women," <http://www.ssa.gov/news/press/factsheets/women.htm>.
- ²⁴ SSA, "Benefits Paid by Type of Beneficiary," <http://www.ssa.gov/OACT/ProgData/icp.html>.
- ²⁵ Paul N. Van de Water, *Understanding the Social Security Trust Funds*, Center on Budget and Policy Priorities, August 18, 2014, <http://www.cbpp.org/research/social-security/understanding-the-social-security-trust-funds>.
- ²⁶ Center on Budget and Policy Priorities, *Chart Book: Social Security Disability Insurance*, Updated March 30, 2015, <http://www.cbpp.org/research/chart-book-social-security-disability-insurance>.
- ²⁷ Robert Greenstein, *Social Security Trustees Confirm Long-Run Shortfall, Though Not an Imminent Crisis*, Center on Budget and Policy Priorities, July 22, 2015, <http://www.cbpp.org/press/statements/greenstein-social-security-trustees-confirm-long-run-shortfall-though-not-an>.
- ³¹ See U.S. Senate Special Committee on Aging, *Social Security Modernization: Options to Address Solvency and Benefit Adequacy*, May 13, 2010, <http://www.aging.senate.gov/imo/media/doc/letters/ssreport2010.pdf>; Congressional Budget Office, *Social Security Policy Options*, July 2010, <http://www.cbo.gov/publication/21547>; Center for Retirement Research, *The Social Security Fix-It Book: Revised 2014 Edition*, http://crr.bc.edu/wp-content/uploads/2011/08/SS-Fixit_9.4.14_WEB.pdf; National Academy of Social Insurance, *Fixing Social Security: Adequate Benefits, Adequate Financing*, October 2009, <http://www.nasi.org/research/2009/fixing-social-security>; and the solvency options estimated by the Social Security Administration's Office of the Chief Actuary at <http://www.ssa.gov/OACT/solvency/provisions/index.html>.